SME Financial Emergency and Recovery Plan 2020 (The GRID Plan)

A plan to recapitalize the small business sector and prevent 500,000 job losses.

Context

- Pre-Covid crisis the SME sector was under-capitalised without the resilience to withstand a significant recession, never mind a crisis of the magnitude that the SME sector is facing
- This plan will recapitalise the small business sector using many of the tools that were deployed to stabilize the banking sector 10 years ago/.
- The SME provides the majority of employment in the State
- The ECB has intervened in capital markets to stabilize governments, banks and big business. SME's do not benefit from these interventions. Hence a fiscal response is required
- The government's response to the crisis to date has mainly focused on household balance sheets. SME balance sheets are more distressed.
- The governement's intervention to sustain the employer/employee relationship will further mitigate the impact on household finances of the crisis but will do little to mitigate the impact on SME finances. This intervention will likely lead to short-term retention of employees but without stabilizing SME's this employment will ultimately evaporate post crisis.
- Both the US and UK governments have recognized the unique impact of the crisis on SME's and responded accordingly.

The measures outlined below are designed to radically respond to an unprecedented crisis that was a true externality for the SME sector. Without radical intervention by the government the outcome will be wholesale small business failure and mass unemployment. The measures proposed reference the financial reality of small businesses as well as actions being taken in other jurisdictions to stabilize small businesses.

1) Crisis Management and Coordination

The government needs to recognise the small business funding crisis by introducing new legislation that allows for the radical measure below to implemented. We need to set the period for this crisis management at 2 years. The template for this is the Financial Emergency Measures in the Public Interest (FEMPI) Acts. This allowed the government to take extraordinary measures to make radical changes in the public sector. The same radical approach is now required for small business to sustain employment. The legislative instruments should clearly define small businesses (<250 employees and <€50m in Turnover as those that qualify for extraordinary support and that the financial emergency will last at least 2 years.

Key Action: Introduce legislation to support emergency actions to stabilise the small business sector

A small business coordination group, bringing together all the small business representative bodies, DBEI, DoF and SBCI together to steer priorities and emergency actions over a 2-year period.

Key Action: Initiate a small business emergency coordination steering group (SBECG)

2) Financing

Although we commend the government's immediate commitment to small business finance by providing €200m in liquidity funding this is

1) Inadequate – We need a much larger commitment of funding to support the small business sector. The UK and US governments have made commitments that are a multiple of the Irish governments commitment.
2) Incorrectly channelled – This needs to be channelled through existing schemes AND through the banks. The banks will have tighter credit conditions associated with small business credit as a result of the Covid crisis. They do not have the flexibility to adjust and control credit criteria.

The following initiatives and actions need to be taken:

Expanded SBCI mandate

The SBCI is an excellent body that has pioneered the reduction in the cost of SME finance and access to specific schemes. They do not have a mandate to lend for this unique credit event that we are experiencing. SBCI cannot taken the full credit risk that is required to support the SME space without a mandate to do so from government. Private lending businesses, particularly the banks, will respond to the changed credit environment. The government can change the SBCI mandate to materially stabilise the small business sector. Without the government assuming credit risk private capital will struggle to mobilise at sufficient scale to stabilize the SME. Although this is a radical step the capital at risk for the government will fund domestic businesses (at least 50% of which will return in Direct taxation).

Key action: SBCI to be provided a renewed mandate to take increased (not limitless) credit risk.

Expanded distribution channels for SBCI funding

The SBCI needs to work with other non-bank providers to channel funding to small businesses. The initial announcement of €200m does not mandate the banks to lend to any specific sectors or restrict them from changing their credit policies. The banks are always first subject to financial markets and SME financial wellbeing is a low priority. Of the €6 bn that is being proposed below in loan financing a majority of this should be channeled through the banks but a significant proportion should be channels through non-bank finance providers also. These non-bank finance providers are agile, typically digital and have direct relationship with SME lenders.

We simply can’t rely on the traditional banks exclusively to channel funding to small businesses as they are funded by the international markets with a historically bearish approach to small business funding in good times and bad.

Key action: The SBCI needs to provide funding equally through the banks and non-bank funders.

New SBCI Schemes:

The following schemes need to be implemented with innovative and flexible approaches to funding taken. Many small businesses may simply shut their doors instead of applying and securing traditional debt. We need to provide small businesses with highly flexible funding solutions so that they have the confidence and hope to keep going. Loan schemes are more effective than grant schemes for government as they allow for the government to leverage its balance as opposed to current account. With the pressure on the government’s current account, loan schemes are the most effective and the government have the vehicle to be able to do it.

Business Continuity Funding Scheme - €1 billion

For businesses that can continue to operate through the delay and mitigation phases of the response they need ‘business continuity funding’. This working capital funding should be structured as a 2-year working capital facility with the following conditions:

- Unsecured up to €500,000.
- No repayments for 12 months
- Interest only repayments for 12 months so that the business is not under cashflow pressure
- Remaining balance structured as a 3-year term loan after year 2
- Must pass a pre-Covid viability test and current resilience test
- No personal guarantees
- After 2 years an affordability test is deployed to evaluate ability to repay capital and interest

Key Action: Introduce a Business continuity funding scheme providing highly flexible working capital to businesses that can continue to trade through the Covid crisis.

Business Reactivation Funding Scheme - € 5 billion

For businesses that can't continue to operate but need to shut temporarily by government order or otherwise they will require working capital funding to get started again. Funding should be provided as above. An active campaign should start immediately to pre-approve small businesses for funding for when they are ready to re-start their businesses. This scheme is key to recapitalising small business and work should begin now to initiate the scheme and pre-approve affected businesses.

Key Action: Introduce a Business reactivation funding scheme providing highly flexible working capital to businesses that need to reactivate after the Covid crisis.

Other products such as invoice discounting should also be included in the scheme to ensure working capital is freed up and payment dates lengthened. All participants in the loan schemes must be clear that their role is to distribute long-dated funding and that the government is assuming the credit risk to ensure that the partners individual credit restrictions do not inhibit the channeling of funding. Specific prescribed business viability and resilience criteria must be provided to each lending partner.

Existing creditor management

- Businesses should be incentivised to continue to pay existing creditors within a 90-day window. This is key to ensuring there is not a systemic cashflow crisis across the economy. A systemic cashflow crisis may impact vital food supply chains if this is not avoided. This will work as a VAT rebate i.e. an effective input VAT rate of 26% would be applied by businesses on all input invoices.

Key Action: Incentivise small businesses to pay creditors within 90 days by providing a 3% VAT rebate for invoices paid on time.

- Businesses that cannot meet repayments for commercial mortgages, leases and other fixed term debt should not have an adversely affected credit rating post crisis. All referring businesses to the ICB and CCR should cease making missed repayment reports for the duration of the crisis (2 years).

Key Action: All negative credit reports for missed repayments to be suspended for 12 months.

3) Taxation (€4 billion)

In a financial crisis cashflow is the critical ingredient to saving businesses from failure. The government is in a unique position to assist with small business cashflow across all heads of taxation.

Corporate Tax

Waive 2019 Corporate tax up for tax year 31/12/2019 up to €500,000. This will remove a significant cashflow pressure for small businesses later in 2020 and will give small businesses the confidence that the government is standing behind them.

Key Action: Waive 2019 Corporate tax up for tax year 31/12/2019 up to €500,000

Outstanding tax payment plan

The decision to allow businesses defer payment is welcome but most small businesses owners will be anxious that as soon as the crisis subsides that they will have an immediate and significant tax liability. Put all outstanding tax payable (as of February 28th, 2020) on a 12-month payment plan. The revenue commissioners routinely structure payment plans for small businesses where they are in trading difficulty. This should now be applied as a rule, not an exception.

Key Action: Put all outstanding tax at 28th February 2020 on a long-term payment plan.

Income Tax/PRSI

The biggest cost and cashflow pressure for most small businesses are employment costs. For the duration of the emergency employers PRSI should be waived in full. The PRSI funds are performing (€1.4 bn forecast surplus 2019) and there is room for the government to deploy this aggressive measure to support small businesses.

Key Action: Waive all employers PRSI for 1 year

VAT

The 9% VAT rate for the hospitality sector should be immediately restored but for both the hospitality and physical retail stores. This had a transformative impact on the recovery of the hospitality sector. It is proven to work. Hospitality is likely to be the worst effected sector along with retail. A proven measure such as this should be introduced immediately.

Key Action: Re-introduce 9% VAT rate for the hospitality and physical retail stores.

Audit exemption threshold

Temporarily increase the audit exemption threshold to include all businesses with revenue up to €50m for all year ends from 31 December 2019 to 30 September 2020. This will remove an annual cost and administrative task for all small businesses.

Key Action: Increase the audit-exemption for all businesses with a revenue up to €50m

4) Cost-Flexing

It is vital that we assist small businesses to flex their fixed costs. This is a vital ingredient to sustaining as many small businesses as possible. Employment costs are central to this. We need to protect the number of jobs and ensure that small business employers (as the biggest employers in Ireland) have the flexibility to do that.

Flexing property costs:

We need to assist small business owners, through the law, to negotiate an 'emergency rent reduction'. This can be set as a blanket percentage reduction or a reset to previous level.

Key Action: Introduce negotiating tool for small businesses to secure an emergency rent reduction

Flexing Rates costs:

There should be a blanket reduction of 20% and deferment of local rates to support small businesses.

Key Action: All rates costs should be deferred for 2020 and reduced materially for 2021.

Flexing employment costs:

All legal and union impediments to moving employees from full-time to part-time positions should be removed on a temporary basis. Economically, it is better that we keep as many people employed as possible.

All legal and union impediments to salary reductions should be removed on a temporary basis for salaries over the average industrial wage.

Key Action: All legal and union impediments to move employees form full-time to part-time should be removed on a temporary basis. The same should apply to salary reductions for salaries over average industrial wage.

Costing and funding:

The proposals above have not been fully costed but are required to prevent a wholesale failure of the small business sector and the impact on employment and our society. The actions above will aggressively support small businesses through the emergency, recovery and normalisation phase.

The costs above could hit €10 billion, only some of which is on current spending. Most of the above intervention is balance sheet investment in the small business space. This pails into insignificance for the economic and social cost of a material increase in unemployment and systemic small business failure.

They are actions to be implemented for a fixed period through a small business financial crisis emergency bill. The sources of available funding are:

- Existing government contingency funds
- PRSI Fund (forecast to be 1.4 billion in surplus at 31/12/2019
- Existing no-deal Brexit funds
- Current taxation

Conclusion:

Executing the 4-step plan above is radical and unprecedented in the support of small businesses. It will save 1,000's of businesses and ensure we have a functioning small business economy after the public health crises passes.